

# SCM-Orientation Course

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## Module: FMS Financial Management | Lesson: Introduction | Page: Learning Objectives

- Welcome to the Foreign Military Sales Financial Management module. I will be coaching you on how the U.S. government manages money and allocates charges for foreign military sales in compliance with the Arms Export Control Act (or AECA).

## Module: FMS Financial Management | Lesson: Introduction | Page: Finance and the FMS Process

- Financial management actions take place throughout the FMS process life cycle. Most occur during FMS case development as the FMS costs are developed and later on during FMS case execution as estimated costs are adjusted to actual costs requiring changes to the FMS documents. In addition, financial management actions will occur for billing the FMS customer and for eventually reconciling and closing FMS cases.

## Module: FMS Financial Management | Lesson: FMS Funds Management | Page: Definition

- What is FMS funds management? It's really about managing the flow of funds between the FMS customer and the U.S. government to ensure there is continuing financial authority to execute the FMS program. The first step in this process is to identify the roles of the key agencies that direct all aspects of FMS financial management.

## Module: FMS Financial Management | Lesson: FMS Funds Management | Page: Key Players

- Let's begin by looking at key DoD agencies involved in FMS financial management and their specific roles and responsibilities.

## Module: FMS Financial Management | Lesson: FMS Funds Management | Page: FMS Trust Fund Flow

- The best place to start reviewing the FMS financial management process is to look at how funding makes its way from the customer to the implementing agency. In other words, how FMS funds flow in support of a country's LOA requirements.
- To summarize, the U.S. Government places monetary demands on the purchaser via the LOA payment schedule that contains the required initial deposit. The implementing agency provides the payment schedule and the purchaser provides funds in U.S. dollars to the U.S. Treasury FMS trust fund account. DFAS-SCA administers this account.
- DFAS-SCA will then provide funding authority from the trust fund that will allow the implementing agency to execute the LOA requirements. Now review some basic facts about FMS trust fund management starting with the LOA.

## Module: FMS Financial Management | Lesson: FMS Funds Management | Page: FMS Trust Fund Management

- Now that we've seen how cash flows through the FMS process, let's take a closer look at how money is paid out of the customer accounts by using one of Bandaria's three FMS cases.
- The implementing agency submits a delivery transaction against Bandaria's YCY FMS case to DFAS-SCA. The trust fund records for case YCY will be updated. Based on the information contained in the delivery report, DFAS-SCA will assess, if applicable, some additional costs, such as the administrative charge or transportation charges for delivery of spare parts.
- These additional costs, such as the transportation costs, will be deducted from case YCY and placed in a Transportation Cost Clearing Account. For example, the transportation cost clearing account will then be used to pay for actual transportation costs submitted to DFAS-SCA by various transportation activities. Similarly, DSCA will draw down on the administrative costs clearing account to pay the IAs, SCOs, etc. for their facilities, computer systems, salaries, and other costs incurred to administer the FMS programs.
- The trust fund also contains Holding Accounts representing customer monies that have not been deposited into an FMS case.

## Module: FMS Financial Management | Lesson: FMS Funds Management | Page: Sources of Financing

- Funding for LOAs can come from a variety of sources. The majority of cases are paid for by customer national funds.

## Module: FMS Financial Management | Lesson: FMS Funds Management | Page: Terms of Sale and Payment Schedules

- Let's now look at Terms of Sale and Payment Schedules. The terms of sale are annotated in the LOA. These provide the basis for how to construct the payment schedule. Most LOAs contain a payment schedule that provides a projection of quarterly payments needed to meet all future case requirements.
- Here's some more information on terms of sale. For detailed descriptions of each of the terms of sale used in the LOA, check them out in the SAMM Chapter 9.

## Module: FMS Financial Management | Lesson: FMS Funds Management | Page: Terms of Sale - Types

- You may encounter several types of terms of sale. Take a moment to review them here. They are also found in Section 4 of the Standard Terms and Conditions included in the LOA.

## Module: FMS Financial Management | Lesson: FMS Funds Management | Page: Payment Schedule

- Payment schedules included with most LOAs will identify the initial deposit required if the customer accepts the LOA. They will also project the quarterly payments required for the entire life of the case.

## Module: FMS Financial Management | Lesson: FMS Funds Management | Page: Initial Deposit

- Let's take a closer look at the initial deposit for Bandaria's most recent FMS case.

## Module: FMS Financial Management | Lesson: FMS Funds Management | Page: Obligation and Expenditure Authority

- DFAS-SCA, the banker, will receive customer payments based on the payment schedule and the customer's quarterly FMS bill. These payments are placed in the FMS trust fund and recorded against the appropriate FMS case.
- If the case continues to be financially solvent, DFAS-SCA will continually release financial authority to the IAs, so they can execute the FMS case requirements.
- This financial authority to execute is referred to as Obligation Authority and Expenditure Authority.

## Module: FMS Financial Management | Lesson: FMS Pricing | Page: FMS Pricing

- Now after examining funds management, let's focus on pricing. We'll look at what is involved in developing prices to be included in the LOA by reviewing policies, pricing formulas, base costs, and authorized charges.
- Why is pricing LOA requirements important? We need a methodology for determining prices in order to recoup the full cost of the LOA defense articles and services. As you can imagine, developing accurate estimated costs is critical to the customer's budget plans. Inaccurate estimates can ultimately jeopardize the success of a program. In addition, the IAs have a significant responsibility to comply with the AECA and the DSCA policy not to overcharge or make a profit.

## Module: FMS Financial Management | Lesson: FMS Pricing | Page: Pricing Concepts

- Our general pricing policy focuses on the goal of recovering the total cost of the articles and services purchased.
- The AECA, specifically sections 21 and 22, provides the legal authority for sales of defense articles and services from stock and procurement, respectively. The DoD Financial Management Regulation, DoD 7000.14-R, Volume 15 establishes a uniform DoD pricing policy based on the AECA requirements.

## Module: FMS Financial Management | Lesson: FMS Pricing | Page: Pricing Procedures

- The DoD Financial Management Regulation, Volume 15, Chapter 7, focuses on uniform pricing procedures. Let's take a look.

## Module: FMS Financial Management | Lesson: FMS Pricing | Page: FMS Price Formula

- The FMR procedures for developing FMS prices are quite detailed and comprehensive. However, ISCS has developed a simplified pricing formula to assist students in understanding the basic concepts for determining prices.
- The FMS price or the LOA line item price estimates are developed using a simple formula: base price plus authorized charges equals the FMS price. The base costs are estimates when the LOA

is developed and later on when material and/or services are delivered and billed, the base costs will be determined by the actual costs incurred.

#### [Module: FMS Financial Management | Lesson: FMS Pricing | Page: Recouping Non-Recurring Costs](#)

- Now that we are familiar with some of the methodologies for determining base costs, let's take a look at pricing the authorized charges.
- It's important to note that the authorized charges are added to the base costs only if they apply and are added to comply with the AECA full-cost recoupment policy.

#### [Module: FMS Financial Management | Lesson: FMS Pricing | Page: Contract Administration Service \(CAS\)](#)

- Contract Administration Services, or CAS, are significant services provided by the USG to the international purchaser. It applies only to items from procurement and is collected to pay for services provided by the Defense Contract Management Agency and the Defense Contract Audit Agency.

#### [Module: FMS Financial Management | Lesson: FMS Pricing | Page: Accessorial Charges: Packing, Crating, and Handling](#)

- Other operating costs incidental to the sale are termed accessorial charges.
- The first is for packing, crating, and handling of items shipped from DoD inventories that are not funded by the Defense Working Capital Fund. Packing, crating, and handling charges for working capital funded items are recovered in the unit catalog price. This charge is to recover costs incurred for labor, material, or services in preparing the material for shipping from the storage or distribution point.
- For the 10% of inventory items that are not working capital funded, the U.S. government levies a 3.5% packing, crating, and handling charge on the first \$50,000 of unit value, and 1% for any value above \$50,000.

#### [Module: FMS Financial Management | Lesson: FMS Pricing | Page: Accessorial Charges: Transportation](#)

- Another accessorial charge is for transportation. There are three basic ways transportation costs can be assessed. Let's take a look at each one.

#### [Module: FMS Financial Management | Lesson: FMS Pricing | Page: Administrative Surcharge](#)

- How do we recoup for all of the salaries, related facilities, and computer systems used by DoD to develop LOAs, as well as administer and manage the approximately 13,000 FMS cases? It is done through assessing an administrative charge to FMS cases.

#### [Module: FMS Financial Management | Lesson: FMS Billing | Page: FMS Billing](#)

- The final segment of the financial management process looks at how the U.S. government bills for materiel and services sold under the FMS program. The customer receives an FMS bill (often

referred to as the DD645) on a quarterly basis. Let's take a look at what the bill contains, as well as the billing cycle.

#### Module: FMS Financial Management | Lesson: FMS Billing | Page: Delivery Reports

- The aforementioned delivery transaction reports submitted to DFAS-SCA become a critical part of the customer's FMS bill. Let's take a closer look at these transactions and find out why they are so important.

#### Module: FMS Financial Management | Lesson: Module Review | Page: FMS Financial Management Continuity Book

- As you can see, FMS financial management is a complex process. Many financial parts and pieces throughout the FMS case life cycle must come together to make it work. Why is this so important?
- Successful completion of the logistical and acquisition parts of the process is dependent on the financial elements being set accurately in place when an FMS case is initially developed. Ultimately, good financial management, based on accurate price estimates and related forecasted payment schedule collections, ensures that accurate billing will occur. This will provide for a continuing flow of funds through the FMS trust fund allowing for the FMS customer's pipeline of defense materiel and services to remain open.
- This module provided an introduction to FMS financial management. Since there's a lot to retain, we've created a continuity book that summarizes key terms, organizations, and policies that you can download before you exit.